

26 November 2010

RDC Inquiry
Productivity Commission
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Response to Productivity Commission Draft Report on Rural Research and Development Corporations

Of the 18 recommendations in the Productivity Commission's draft report on Rural R&D corporations (RRDCs), A3P finds merit in the majority, and is either inclined to accept them with no comment or only minor comment. Two others warrant somewhat more discussion here and more consideration by the Commission.

General comments

A3P welcomes the basic tenor of the draft report in its recognition of the soundness of the RRDC model and its recognition of the substantial benefits that can flow from rural R&D (and extension).

The 'Across Agriculture' group — with which A3P is broadly aligned — has separately raised a number of general concerns with the Commission, and A3P adds its voice on five of these concerns in particular.

- An unfounded implied assumption in the draft report's recommendations that it is possible to somehow pre-determine the public good/private benefit outcomes of R&D, and in particular the break-up of social, environmental and industry benefits, before the expenditure is allocated.
- A contention that, by international standards, governments in Australia are currently shouldering too much of the total funding for rural R&D, which contention is challenged by the Across Agriculture group as being unsoundly based on incomparable data.
- A lack of convincing argument that government support for rural R&D is extremely generous compared to economy-wide R&D support measures, underpinned by inadequate recognition and explanation of the special features of primary production that would in any case warrant a higher level of government support.
- A conclusion that, despite the report's proposals' resulting in a decline in public funding for the RRDCs, the community as a whole would be better off as a consequence, relying on the highly questionable assumption that

the agricultural sector will be willing and able to increase private funding to fill the gap and ensure the public benefit spillovers continue.

- The failure of the report to consider the implications of reduced public support for RRDCs in a future where Australian primary production will be required to increase its productivity to better cope with a secure expansion in food and fibre supply, potential impacts of climate change and climate change policy, international competition, and increasing environmental and other constraints — applying no less to the likely increased reliance on sustainable forestry and forest products in a carbon-constrained global environment.

It is in that future context that A3P deplors the decisions by CSIRO in the last two years to disperse, then dismantle, then destroy its world-standard research capacity in forestry and forest products. Similarly, the gradual disinvestment by State governments in agricultural research, and especially agricultural and forestry extension, is diminishing the capacity of Australia's research community to meet the challenges being forecast for the next half century.



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Response to specific recommendations

Supported without comment

A3P believes the following recommendations in the draft report appear to have merit.

Specific changes to help give effect to the principles

- *Recommendations 8.2 and 8.7.*

Levy arrangements

- *Recommendations 9.1, 9.2, 9.3 and 9.4.*

Supported with minor comment

A3P finds merit in the following recommendations, but raises minor concerns that should be taken into account.

Public funding principles

- *Recommendation 5.1 (public funding principles)*
As noted above, it is not possible to pre-determine the outcomes and benefits of rural R&D, especially the likely incidence of public and private benefit. So it is important that the principles not be overly prescriptive or make differentiation of public versus private benefit a pre-project condition.

Framework data collection and program coordination

- *Recommendation 5.2 (data collection)*
The collection of robust data as proposed (presumably annually) should include government expenditure on rural extension, the

reduction of which RRDCs are increasingly having to compensate for, but which the Commission appears to have overlooked. (This includes not only State but also Commonwealth expenditure; eg termination of extension funding through the Natural Heritage Trust and the Private Forestry Development Committees.)

- *Recommendation 5.3 (coordination)*
The merit of this recommendation must not be lost by the process becoming a committee-focused administrative burden producing no real benefit for program management and coordination. It doesn't appear to recognise cross-RDC coordinating programs, such as Grain and Graze and the Climate Change Research Strategy for Primary Industries.



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Principles to guide the future operation of the RDC program

- *Recommendation 8.1 (public funding conditions and Government's obligations)*
The obvious benefits of RRDCs meeting performance obligations and the Government being bound to engage constructively with RRDCs must be facilitated by sufficient flexibility for each sector to meet its needs.

Specific changes to help give effect to the principles

- *Recommendation 8.3 (marketing and representation?)*
Allowing statutory RRDCs to conduct industry-funded marketing functions is acceptable. But allowing any RRDC to perform industry representation raises questions of tension (even conflict) where the representation function is at odds with the public funding source. A3P believes that the Commission's final report should rule out such arrangements.
- *Recommendation 8.4 (government director)*
A positive proposal in principle, although its effectiveness would depend on the skills and professional relationships of the person elected to represent the Government. Agree that a return to pre-2007 'appointment' of government directors is undesirable, but election of (not Ministerially appointed) serving government officers as directors with the desired skill-set should not be ruled out, if sought by the RRDC.
- *Recommendation 8.5 (project evaluation process)*
Recommendation 8.6 (independent performance reviews)
Both recommendations have merit, but care must be taken to minimise additional administration and management costs for RRDCs, and to minimise unnecessary duplication and overlap between the two processes. Frequency and timing should be aligned to the degree possible, including trying to match this process with the RRDCs' strategic planning intervals.

Further review

- *Recommendation 9.5 (further review)*
Agree that a further review should be conducted after a suitable time has elapsed (ten years), and in the context of broader changes in the

rural R&D (and Extension) funding framework. However, the coverage of the review should be determined at the time, rather than using the topics listed in the draft report.



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More consideration needed

A3P believes two recommendations in particular warrant more discussion here, and further consideration by the Commission.

Changes to the configuration of, and funding for, the RDC model

- ***Recommendation 6.1 (new RDC, 'Rural Research Australia')***

It is now widely accepted that the decision to abolish the effective cross-sectoral non-commodity RDC, Land and Water Australia (LWA), in 2009 was at best short-sighted, as was the termination of the Energy RDC in 1997. The Commission quite justifiably proposes a new RDC to fill the gap in cross-sectoral, public good R&D investment in at least land, water, and energy use. (Working title: 'Rural Research Australia' (RRA).)

However, the implementation of this proposal as drafted warrants more consideration before any decisions are taken.

A positive recommendation is the proposal that RRA be funded by the Government under a quadrennial arrangement, supplemented from other sources. Quadrennial funding would help minimise the risk of public funding being cut off without warning to satisfy short-term budgetary expediency, as occurred with LWA.

It is being argued in some quarters that establishing a new fully funded RDC would add disproportionately to the total of RRDC overhead and administration costs, and that it would instead be more feasible either (a) to expand the role of the Rural Industries R&D Corporation (RIRDC) to encompass the former research activities of LWA and ERDC, or (b) to require the industry-specific RRDCs to take on the role of public good R&D.

A3P can see merit in both these alternatives, and believes there should be a longer and more detailed debate on all three options. At this point, A3P on balance **favours the model of a separate new RDC as the Commission recommends, although not exactly as proposed.**

Of the two alternatives, a revised and expanded RIRDC would be preferred.

Although the final model should in any case have commodity RRDCs clearly identifying public good outcomes in new and existing programs, and funding more industry-specific public good research than they do currently, they should not be relied on to pick up

responsibility for ALL public good research. This would risk the diminution of cross-cutting multi-sectoral public good research for which demand is increasing. A3P believes the optimum arrangement would be collaboration on public good R&D, with the RRA responsible for broad cross-sectoral research and the commodity RRDCs also funding public good R&D but more narrowly focused on their sectors. Such an arrangement is likely to enhance the innovation adoption pathway because of the acknowledged ‘buy-in’ of stakeholders in the commodity RRDCs.

The ‘expanded RIRDC’ alternative would not be as simple as just adding on new functions, and would require more complex reconstruction in order to be as effective as is intended for the new organisation.

Not the least reason is that, ideally, the coverage of the new RRA should be designed to encompass diverse subjects affecting and affected by Australia’s primary industries. Such expansion would also recognise that there are more Government portfolios than just primary industries with interests in the research — for example, the four portfolios covering: sustainability, environment, water, population and communities; climate change and energy efficiency; resources and energy; and regional Australia, regional development and local government. (The latter would have an interest in the increasingly sensitive rural-urban interface.) The plantation and plantation products industries certainly have interactive relationships with each of these portfolios.

Related to this anticipated broad coverage, it would be sensible to seek a more wide-reaching and explanatory title for the new RRA, which title does little to convey the intended scope of the organisation’s charter.

- *Recommendation 7.1 (future funding of all RRDCs and the new RRA)*

The proposed level of funding for the foreshadowed cross-sectoral public good research appears at first glance to be appropriate, although care must be taken to build up to the maximum in an orderly manner over time, to avoid overwhelming the currently diminishing capacity of the research community and to minimise the risk of early funds being wasted just for the sake of ‘getting the funds out’.

However, perhaps not surprisingly, A3P rejects the notion that the cost of the new RRA should be met by winding down funds for existing RRDCs by halving the matching cap. Such a decision would send a number of wrong signals. It would create tension between the fledgling RRA and the existing RRDCs, and make more difficult the essential development of partnerships and collaborative arrangements when they are most needed for the research to become truly integrated.



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Further, contrary to the draft report's expectations, it is more likely than not to discourage rather than encourage additional private funding from industries already suffering problems of image and capacity, of which plantation forestry is but one.

There is no justification for reducing existing RRDC funding to half its current level. By contrast, there is a very strong argument that raising agricultural productivity in the future will necessitate more not less funding for rural R&D in Australia. The fact that some RRDCs are below their caps for matching funds from levy payers is not necessarily an indicator of the industry's 'head-room' capacity to raise its contribution. In the case of forestry research, the very long timeframes to get results from R&D create a severe timing discord between investment and return that militates against private sector investment in uncertain outcomes.

It should not be necessary to repeat the constantly heard claims by research bodies and other experts that worldwide demand for secure supplies of food and fibre is likely to double by mid-century.

Carbon-friendly plantation products are likely to be in particular demand in a future carbon-constrained environment, not only as wood and paper but also as biomass for electricity and fuel production and for diverse bioplastics, chemicals and pharmaceuticals — at the same time that plantations will be facing challenges of adaptation to changing climatic conditions in order to maintain productivity.

Taking the 'carbon constraint' argument a bit further, it is quite possible that international commodities trade may not be as predictable a solution as anticipated to future food and fibre security. Market forces alone (eg, energy and transport costs, consumer preferences) may turn 'carbon miles' into a much more significant factor than is currently talked about. The implication of this for a country increasingly reliant on food and fibre imports would likely be that increasing productivity towards greater self-sufficiency may become a bigger goal than helping to 'feed the world'.

Concluding remarks

A3P's submission on the Commission's Issues Paper noted the substantial list of inquiries and reviews of some or all aspects of rural R&D in Australia in recent years, as well as the two other broad activities being carried out concurrently with this Inquiry. These activities are the National Strategic Rural R&D Investment Plan (being developed by the Rural Research and Development Council advising the Minister for Agriculture, Fisheries and Forestry) and the National Primary Industries RD&E Framework (being developed by the Primary Industries Ministerial Council).

Within the PIMC National Framework, PIMC is systematically considering and endorsing detailed RD&E strategies prepared by diverse rural industries. As at



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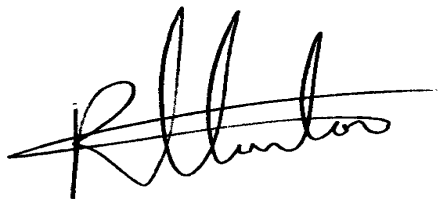
mid-September 2010, these were the pork, wine, beef, sheepmeat, poultry, fish and aquaculture, and forest and wood products industries.

It is worth reiterating what PIMC is expecting from the successful implementation of the National Framework (quoting the DAFF website):

There will be a more coordinated and collaborative approach to rural RD&E, national research capability will be focussed, and used efficiently and effectively to achieve the best outcome and uptake by primary industries.

The Commission's draft report warns of the risk that the National Framework and the Rural R&D Investment Plan may lead to governments taking on "too great a role in directing specific research outcomes, or even attempt to 'pick winners'" (p112). And it then limits its recommendation for a coordinating mechanism (Rec 5.3) to one that addresses Australian Government R&D funding only.

A3P would urge the Commission to put aside its reservations and consider the broader national R,D&E context when finalising its recommendations. It is in this context that the recommendations of the Commission's Inquiry should be made and, if agreed, implemented.



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